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DEPARTMENT OF STATE

Washington, D.C. 20520

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March 10, 1981

MEMORANDUM

TO: (See attached list)

FROM: EB - Robert Hormats, Chairman
East-West Economic Relations
Interdepartmental Group

SUBJECT: Studies to be prepared

The papers listed below were tasked at the March 5 meeting of the East-West Economic Relations, IG. Unless noted differently, these papers should be circulated before the next meeting on March 23 at 3:00 p.m. Rm. No. to be provided later.

I. Objectives

- A. Overview of how the Economic Relationship Fits into U.S. Political/Strategic Objectives with Respect to USSR and Eastern Europe. This paper will provide a basic framework for analysis of economic issues. State/EUR (with assistance from EB and S/P) will work with DOD/ISA on the first draft to be circulated by March 13 to all members of the IG. A revised draft reflecting comments received should be circulated before March 23.
- B. East-West Economic Issues. In its initial stages (and by March 23) this paper should be an overview of East-West economic relations, focussing on Western (including Japanese) economic interests in the USSR and Eastern Europe and, conversely, USSR/Eastern European economic interests in the West. As a consensus is reached on the political-strategic paper (above), the economic paper will be refined to identify and analyze options for U.S. and Western economic relations with the USSR and Eastern Europe. Commerce should work with State, STR, Treasury, Agriculture, and CIA in preparing a draft.

II. Issues

- A. Strategic Trade Controls. Two issues need to be addressed now: 1) How can we ensure that sufficiently precise proposals are prepared for COCOM so that other

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countries can seriously consider tightening COCOM controls? and 2) what should we do to ensure that these proposals gain necessary high level attention in other governments (this should also include an assessment of whether there is a need for revision of the COCOM strategic criteria to accommodate possible U.S. proposals). DOD should work with State and Commerce in preparing a first draft.

- B. Strategic Trade and Eastern Europe. In its broader paper on East European policy, State (EUR) should address export control issues, including the desirability of maintaining somewhat different controls for Eastern Europe than for the USSR and the possibility of diversion to the USSR. State should work with Commerce, DOD, and CIA.
- C. Dependence. CIA will describe potential Western economic leverage against the USSR/Eastern Europe and USSR/Eastern European leverage against the West. Weaknesses in the USSR/Eastern European economies should be assessed with a view toward identifying areas in which either unilateral U.S. or multilateral Western trade controls might have an impact on the Soviet economy. This paper should also examine Western trade patterns to identify categories in which the West may become unduly reliant upon the USSR/Eastern Europe, either as a source for imports, in such areas as critical resources, or as a market for important exports (e.g. steel and chemical).

If this paper cannot be satisfactorily completed by March 23, it would be helpful to have by then a report on the progress of the paper and its estimated completion date. CIA should work closely with the group drafting the Economic Issues paper.

- D. Oil and Gas. This paper should address Soviet energy development, Western imports of Soviet oil and gas, and the impact of Western equipment and technology, including issues related to the Yamal gas pipeline. State and Energy should work with CIA on the first draft.
- E. USSR/East European Debt. Treasury should work with State and Commerce to assess present and prospective levels of debt and the potential for damage to the West should there be large-scale default. This paper should also address issues related to Western 1) official export credits (both subsidized and at market rates), and 2) private bank credits.

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